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Kazakhstan - Republic of

Grain and Feed Annual

Annual 2011

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Report Highlights:
Assuming normal weather, FAS Astana forecasts that Kazakhstan's wheat crop in MY 2011 will rebound to 14.5 million metric tons (MMT) from the drought affected 9.7 MMT in MY 2010. Wheat exports are forecast at 7 MMT, an increase by 2 MMT from MY 2010, and most wheat and flour will be exported to Asian countries, while exports to Russia will not exceed 1 MMT. The total domestic wheat consumption is forecast at approximately 7 MMT and food consumption will comprise 70 percent of the total.

Executive Summary:

According to all available forecasts, 2011 will be favorable for Kazakhstan with better grain and legume yields although area sown to grain will decrease for the second consecutive year. In 2010, the sown area to grain and legumes decreased by 583,000 hectares (1.44 million acres), and in 2011 forecasts predict a sown area to grain and legumes will be reduced by an additional 89,000 hectares (220,000 acres). The share of wheat in the total grain production varied from 79 to 82 percent in 2005 – 2010. In connection with Kazakhstan's program of livestock development greater attention of the Government is currently focused on forage grasses, barley and corn, and area sown to wheat might decrease. However, the soil and weather in Kazakhstan remains favorable first of all for growing milling quality wheat, and its share in the total grain crop will keep at 78-80 percent. FAS Astana forecasts wheat production in MY 2011 at 14.5 million metric tons (MMT), an increase by almost 50 percent from the drought affected wheat crop in MY 2010.

Wheat exports are forecast to reach 7.1 MMT, and a significant portion of these exports will be wheat flour. The government of Kazakhstan assists the development of the milling industry, and exports of wheat flour versus exports of wheat are increasing, although official customs data on exports of wheat flour are not available.

Domestic consumption of wheat is forecast at 6.8 MMT, including 2 MMT of feed consumption. Feed consumption of wheat is forecast to increase from the dry year of 2010, but it will be lower than in MY 2009. Food consumption is forecast to resume to the traditional, stable levels of 4.8 MMT.

Commodities:

Wheat

Production:

<u>Wheat crop in 2010</u>

Kazakhstan produces almost all types of grains, but 80 percent of its grain is wheat. Barley comprises 10-12 percent of grain crop, and other grains, such as corn, rice, oats, buckwheat, millet, and legumes represent the rest. Wheat has been the primary, and for many years almost the only, commercial grain crop in Kazakhstan. However, in the last two years production of other grains, especially fodder grains, such as barley and corn, has been slowly increasing.

Table 1. Wheat Area, Production and Yields, 2004-2010, Average for 2004-2010

	2004	2005	2006	2007	2008	2009	2010	Average 2004 - 2010
Planted Area, 1,000 Hectares								
Total Grain:	14278.0	14841.9	14839.8	15427.9	16190	17207	16619.1	15409.5
- Wheat	11956.6	12647.9	12425.5	12892.3	13476.1	14751.0	14262	12971.6

Harvested Area, 1,000 Hectares								
Wheat	11830	11788	11912	12667	12926	14329	13203	12191.2
Production, 1,000 Metric Tons (MT)s								
Total Grain	12374.2	13781.4	16511.5	20137.8	15578.2	20830.5	12185.2	15772
- Wheat	9937.0	11198.3	13460.5	16466.9	12538.2	17052.0	9638.4	12729
Yields, MT per Harvested Hectare								
Total Grain	0.88	1.0	1.17	1.33	1.01	1.26	0.8	1.16
- Wheat	0.84	0.95	1.13	1.3	0.97	1.19	0.73	1.05

Source: Statistical Agency of Kazakhstan Republic, harvested area is calculated by FAS Astana based on production and yields.

About 80 percent of grain production is concentrated in three oblasts (regions) of Kazakhstan: Akmolinskaya Oblast, Kostanai Oblast and the North Kazakhstan Oblast. These oblasts are also the main wheat producers.

<u>Forecast for 2011</u>

According to the forecasts of the Ministry of Agriculture and Kazgidromet in spring 2011 moisture reserves in the soil is varying between average and slightly below average, but forecasts for the 2011 crop are better than in the disastrously dry year of 2010. FAS Astana forecasts wheat crop in MY 2011 at 14.5 MMT, and the total grain crop might exceed 18 MMT.

A livestock development program was introduced in 2009 in parallel to another complementary program "Development of Fodder." Data show that in 2011 the area sown to fodder crops increased by 3.8percent (95,000 hectares or 235,000 acres). The fodder development program proved popular to small farmers, as many were interested in diversifying into other crops such as flax, peas, canola, lentils, and sugar beets. Furthermore, it is perceived that these crops will prove popular in export markets.

Financing grain production will be one of the most serious problems in 2011 despite the increased grain prices in MY 2010. As a result of last year’s crop failure, many small and middle-scale farmers incurred debt, because most of them, being short of current, operating capital, were selling grain shortly after the harvest at unfavorably low prices. In the fall of 2010, farmers flooded the market with their grain to get cash immediately in order to lower the debt they accumulated for the spring field work. If they waited for a better market price, then they would have ended up paying greater interest. As a result of their eagerness to pay their debt early, they were receiving lower prices for their grain.

<u>Input Supply</u>

Prices for goods such as seeds, herbicides and diesel fuel are at all-record highs. The Ministry of Agriculture signed an agreement with the Ministry of Oil and Gas to ensure fixed prices on fuel at the time of sowing (March, April, and May).

In regions particularly affected by last year's drought, the availability of seeds has further complicated the input dilemma. The Ministry of Agriculture is also addressing this matter, although there are signs that there could be resources available in the state owned firm "Food Corporation”.

Most of machinery is relatively new, as it was purchased when the grain harvest was better, farmers' returns were higher, and farmers were able to invest into it.

Consumption:

Food Consumption

Spring wheat of milling qualities comprises the major portion of the wheat crop in Kazakhstan, and 70-75 percent of domestic wheat consumption is food consumption (this also includes food and industrial processing). FAS Astana forecasts this consumption in MY 2011 to recover to the average of 4.8 MMT.

Feed Consumption

Feed consumption of grain should increase due to Kazakhstan's livestock development program, due to forecasted production of fodder crops. In the meantime, feed consumption of wheat will remain low. FAS Astana forecasts feed wheat consumption (in PSD this category also includes residual) at 2.0 MMT, 0.6 MMT more than in the dry year 2010, but less than in MY 2009.

Trade:

Wheat and wheat flour comprises the major portion of Kazakhstan's grain exports. Before 2009, wheat was the only grain export and Russia and other countries of the former Soviet Union were the dominant market. However, since 2009, Kazakhstan began exporting barley and some other grains and increased the range of export markets. In calendar year (CY) 2010, Kazakhstan exported over 5 MMT of wheat and meslin and almost 0.4 MMT of barley (Table 2). Official data on wheat exports from Kazakhstan in CY 2010 is 2.8 MMT higher than imports of wheat from Kazakhstan reported by the Global Trade Atlas (GTA). There are no Kazakhstan's customs data on exports of wheat flour. According to the GTA, the world imports of Kazakhstan's wheat flour in CY 2010 reached 3.7 MMT, or 5.2 MMT in grain equivalent. Most wheat flour was shipped in July – December (2.3 MMT, or 3.2 MMT in grain equivalent). In thewheat flour markets Kazakhstan was competing with Russia and benefited from the Russian grain and flour export ban of August 2010. However, when the ban on flour was lifted in Russia in January 2011, markets for flour from Kazakhstan shrank, and exports began decreasing.

Kazakhstan usually ranks as the sixth or seventh largest wheat exporter in the world and typically exports 25-40 percent of its crop. Transportation and infrastructure are holding Kazakhstan back from realizing its full export potential.

In CY 2010 major wheat importers were Azerbaijan (1,335,310 MT), Georgia (264,826 MT), Kirgizstan (354,729 MT), Tajikistan (452,643 MT), Uzbekistan (225,106 MT), Egypt (467,514), Iran (468,118MT), Turkey (727,484 MT).

Table 2. Kazakhstan: Wheat exports, CY 2010, 1,000 MT

	CY 2010

WHEAT	
Total	**5,066**
Azerbaijan	1,335
Turkey	727
Iran	468
Egypt	468
Tajikistan	453
Kyrgyzstan	355
Georgia	265
Uzbekistan	225
Afghanistan	82
Sweden	80
Other	608
BARLEY	
Total	**373**
Iran	223
Azerbaijan	82
Turkey	19
Saudi Arabia	12
Libya	12
Uzbekistan	11
Tajikistan	6
Afghanistan	3
Kyrgyzstan	2
Georgia	2
Other	0

Source: Ministry of Finance Republic of Kazakhstan

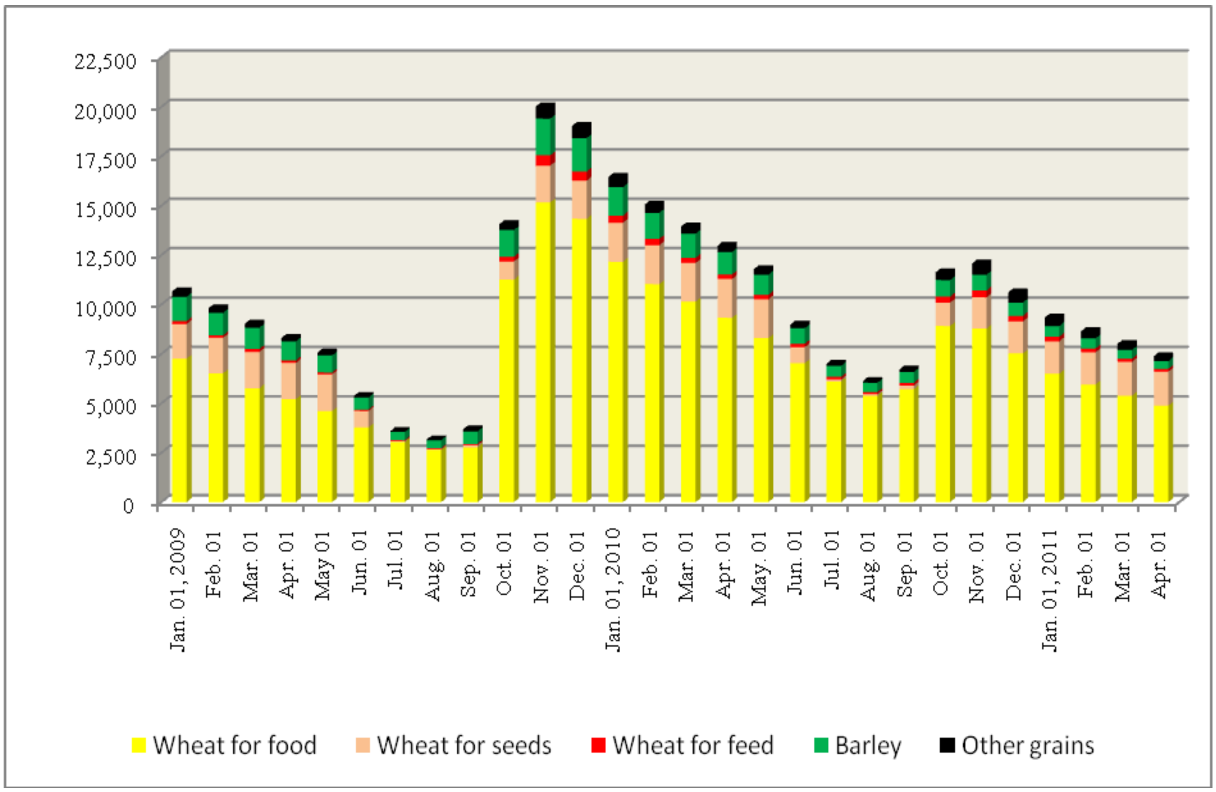
Since the official Kazakhstan Customs' monthly trade data are not available, FAS Astana estimates marketing year (July – June) wheat exports based on the monthly GTA data by major importers of Kazakhstan's wheat and wheat flour (in grain equivalent) in July – December 2010. These shipments in July December 2010 reached 4.2 MMT, but dropped in the beginning of 2011. FAS Astana estimates that wheat (including flour in grain equivalent) exports from Kazakhstan at 5 MMT in MY 2010, decline by 36 percent from MY 2009 due to lower crop and tight competition with Russian four beginning January 2011. In MY 2011, wheat exports might regain to 7.1 MMT.

Stocks:

The Statistical Agency of Kazakhstan Republic updates monthly data on grain held at all enterprises (agricultural enterprises and private farms, elevators and warehouses, flour and feed mills, etc.) since January 2009 (Graph 1). The highest, post-harvest, grain inventories are reported in October-November, and the lowest are in July-August. Changes of stocks throughout in 2009- 2011 allow forecasting carry-over wheat stocks in the beginning of MY 2011 (July 1, 2011). Official data on grain stocks split grain by consumption purposes: food, feed, seeds. The share of wheat for feeds is very small, and does not exceed 3-5 percent of the total wheat stocks throughout a year. However, poultry producers and feed millers sometimes use milling quality wheat, and the consumption of wheat in feeding is larger.

Calculations based on the wheat stocks data for the period October 2010 - March 2011 show that the monthly food and feed consumption of wheat was 0.75 MMT. As of April 1, 2011 wheat stocks at all enterprises were 6.7 MMT. These stocks included 5.0 MMT of wheat for food and feed, and 1.7 MMT of planting seeds of wheat. Given that most seeds will be planted in spring, and that the monthly food consumption of wheat will remain the same as in October - March, FAS Astana estimates the end-of-year carry-over stocks of wheat at 2.7 MMT in MY 2010. The end-of-year wheat stocks in MY 2011 are forecast at 3.3 MMT.

Graph 1. Kazakhstan: Grain Inventory, January 2009 – April 2011, Monthly Data, 1,000 MT



Source: Statistical Agency of Kazakstan Republic. Web-site: www.stat.kz

Table 3. Kazakhstan: Wheat and Barley Inventories as of April 1, 2011, by Holders, 1,000 MT

	Total	Agricultural Enterprise	Farmers	Elevators	Flour-mills and Other
Grain Total	7,379	2,362	883	3,362	772
• for food use	5,054	779	301	3,224	751
• for seeds	1,952	1,392	519	40	0

• for feeds	374	191	63	98	21
including:					
Wheat	6,736	2,003	759	3,240	734
• for food use	4,874	692	277	3,173	732
• for seeds	1,729	1,238	453	37	0
• for feeds	134	73	29	29	2
Barley	391	208	84	73	26
• for food	55	35	5	6	9
• for seeds	149	95	52	1	-
• for feeds	188	78	27	66	17

Source: Statistical Agency of Kazakstan Republic.

Policy:

In efforts to diversify the economy, the Kazakh government has put considerable resources into agriculture, including both grain and livestock production. In the area of grain, they have stepped up subsidies, primarily focusing on boosting yield rather than expanding area.

Measures include:

- Subsidizing fertilizer, herbicides and pesticides, and high-quality seed
- Increasing the use of reduced tillage
- Introducing more oilseed crops into the rotation: chiefly sunflowers in the drier areas and rape in the northern, less arid regions
- Increasing the pulse area to improve soil fertility.

Producers of agricultural products also benefit from a special tax regime and tax rebates.

Marketing:

In Kazakhstan, there are three major ways of selling grain in the domestic market:
- Small and medium-size agricultural producers prefer to sell their grain to local mills to reduce transport costs and also to hide income.
- Producers can sell their grain to the government-controlled Food Corporation.
- Large agricultural producers and grain traders with can sell grain at the Kazakhstan's Commodity Exchange (Eurasian Trading System).

Besides, there are several large privately-held vertically integrated grain companies, such as Zernovaya Industriya and Tsesna that can produce, store and market grain on their own, however, and to whoever they prefer.

The National Company Food Contract Corporation (Food Corporation) was established by government order № 309 on March 21, 1995. In the beginning the company was managed by the Ministry of Agriculture. In 2006 it was reorganized into a joint stock company and became a component of the National Holding Company KazAgro. The reorganization released it from the direct control of the

Ministry of Agriculture, but the board of directors of KazAgro includes a deputy prime minister and key decision makers from the Ministry of Agriculture. The official functions of the Food Contract Corporation are the following: to provide a vertically-integrated management approach of the grain industry in Kazakhstan and to manage government grain reserves. The Food Corporation has resources to store grain in its own elevators or to contracts private elevators. The Food Corporation can transfer grain stocks to areas of Kazakhstan that experience grain shortages. It can purchase grain directly from producers; and manages the sale of grain to export markets via the Kazakhstan's Commodity Exchange. Food Corporation additionally finances the production of grain through its holding company, KazAgro.

To ensure the sufficiency of government grain reserves, the Food Corporation has the ability to set the purchase price of grain that it buys from producers.. In 2010, Food Corporation purchased wheat at 26,500 tenge ($180) per MT although the actual market price of wheat was 33,000 to 35,000 tenge ($226-$240) per MT.   As expected, grain producers tried to avoid selling their products to Food Corporation however there is evidence to suggest that the local government administrators applied considerable pressure to producers to sell to the Food Corporation in order to boost government reserves. In 2010, the Food Corporation purchased wheat at 23,600 to 26,500 tenge ($160-$180) per MT although the actual market price for a ton of grain was 33,000 to 35,000 tenge ($226-$240) per MT. As expected, grain producers tried to avoid selling their products to Food Corporation; however, there is evidence to suggest that the Ministry of Agriculture applied considerable pressure to producers to take a loss and sell to Food Corporation regardless.

Production, Supply and Demand Data Statistics:

Table 4. Wheat, PSD

Wheat Kazakhstan	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jul 2009		Market Year Begin: Jul 2010		Market Year Begin: Jul 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	14,751	14,751	14,500	14,500		13,500
Beginning Stocks	1,998	1,998	3,686	3,686		2,661
Production	17,052	17,052	9,700	9,700		14,500
MY Imports	57	57	75	75		25
TY Imports	57	57	75	75		25
TY Imp. from U.S.	0	0	0	0		0
Total Supply	19,107	19,107	13,461	13,461		17,186
MY Exports	7,871	7,871	5,000	5,000		7,100
TY Exports	7,871	7,871	5,000	5,000		7,100
Feed and Residual	2,700	2,700	2,100	1,400		2,000
FSI Consumption	4,850	4,850	4,500	4,400		4,800
Total Consumption	7,550	7,550	6,600	5,800		6,800
Ending Stocks	3,686	3,686	1,861	2,661		3,286
Total Distribution	19,107	19,107	13,461	13,461		17,186
1000 HA, 1000 MT						